

4. Consumers are better equipped with durable goods - autos, household equipment etc. Their needs are now primarily for replacement.

In short, we are not in an inflationary situation and have not been for some time.*

5. In relation to Europe and Japan, our prices and hourly earnings have risen at a much slower rate in the last few years.

Tax Policy

Walter Heller and Stanley Surrey:

No decisions have been taken re a tax reduction - whether there will be one, its timing, its magnitude, or whether it will be tied in with tax reform. These decisions will be made early in December. Advice is invited.

A tax reduction, in the face of a growing deficit, is "unorthodox fiscal policy", yet it may be good policy. Taxes were reduced in 1954 in face of a deficit, and revenues rose the next year. More public education is needed on the economic consequences of fiscal policy.

Tax reduction as a spur to long-term economic growth and attainment of full employment was given great emphasis. References were made to high U. S. rates of corporate and individual taxes in comparison with other countries; and to their deterrent effects upon expansion in recent years. (As an observer, I judge that both men think a tax cut is of great importance for long-range structural reasons, even in a crisis.)

Tax reform has been - and is - a major goal of this Administration. To (a) spur growth (b) remove inequities and (c) simplify taxes. No details were discussed. As to whether tax reduction would be presented together with tax reform in 1963, Surrey says, "Time will tell". The 1963 tax bill was a beginning toward reform and accomplished more than its critics say.

Effects of the 7 percent tax credit and revised depreciation guidelines will not be seen quickly. They are complex and few firms have yet decided how to deal with them, but cash flow should be increased in 1963, based on 1962 available deductions. (Of which more in a separate memorandum.)

Mr. Heller spent considerable time on the big 0.6 percent rise in the September CPI, announced today, saying there is always some "special" factor that makes it go up.